

January 26, 2010

**To - Gloria Martin-Roberts, President
Patty Kim, Vice President
Members of City Council
and
The Citizens of Harrisburg**

We hereby present the proposed amended budget for The City of Harrisburg for calendar fiscal year 2010.

As we all know, the City Council, on December 22, 2009, adopted a Budget for the fiscal year beginning January 1, 2010. Under state law, a new City Council has the opportunity to amend that Budget by February 15 of the new year, if it feels such action is appropriate. We have reviewed the document in terms of fulfilling our commitment to transparency, accountability and responsibility and to ensure that it allows us to ensure the Vision of what Harrisburg can become in the future.

The following represents the amendments we propose for your consideration to the existing Adopted Budget.

DEBT SERVICE

With respect to the Debt Service Fund, we believe the Emergency Financial Plan presented by Management Partners, Inc. yesterday provides the best approach to addressing our immediate and long term financial responsibilities. That Plan includes strategies for (1) meeting the City's debt service obligations and making them more manageable, (2) managing cash more effectively to improve the City's cash position both in the short-term and over time and (3) eliminating annual operational practices and costs that contribute to a prospective long-term deficit.

The Plan includes steps to be taken to lease or sell City assets to generate cash to reduce and/or fund its debt obligations. The former Mayor proposed to recognize the potential value of those assets at a minimum of \$69,509,785 and to include them as a resource in the Debt Service Fund. While we do not know the value of those assets, we are willing to use that number for now and include it in the proposed budget. We are also willing to recognize our obligations to guarantee the debt service payments on the Resource Recovery Facility in the amount of \$68,559,784 because all proceeds and expenditures will, of course be utilized in accordance with the Emergency Financial Plan which will come before City Council within the next few weeks for your consideration for approval.

OPERATIONS

Proposed Changes in Requirements

The most significant proposed change addresses the need to restore \$3,818,325 in transfers from the Water Fund to the General Fund which the City Council eliminated in adopting the Budget for FY2010. This will be financed by a proposed increase in water rates, a subject which is discussed later in this document under “resources”.

In reviewing revenue estimates on which the Adopted Budget is based, we believe the estimate for income to be generated from parking violation receipts is too high. We propose that the estimate be reduced by \$400,000 (from \$1,820,036 to \$1,420,036). We also believe the estimate for income to be generated and transferred to the City by the Parking Authority is too high.

We propose that the estimate be reduced by \$692,397 (from \$4,500,000 to \$3,807,603). And, finally, we believe the estimate for income to be generated by the Local Services Tax is too high. We propose that the estimate be reduced by \$538,389.

We believe it important to establish a Contingency (\$2,000,000) for emergencies which may occur as we work through the difficult issues identified in the Emergency Financial Plan which was presented to us yesterday. Most experts in the field recommend including a contingency for unanticipated expenses during the year of between 3% and 5% of operating costs. For Harrisburg, this would be in the range of \$1.8 million to \$3.0 million. The amount we are proposing falls within that range.

And finally, we are proposing a series of changes in a number of budget units, the net total of which is estimated to cost \$565,986. Among those are changes which will allow us to take more active efforts in services which we believe are critical to the economic survival of our community. In fact, it has been far too long that urban communities like ours have suffered due to unemployment, underemployment and low paying wages.

The current national job loss crisis has finally brought public attention to this issue. We are asking Council's support to help stem the tide of this human misery. As a matter of fact, urban communities have been in a recession long before it became a public matter. While national unemployment is now at double digits (10) percent, it has been double digits for African Americans since 2008 and since 2009 for Latinos.

The two populations make up more than 50% of our population, thus calling for a greater demand for workforce development, more business development and housing construction.

We propose to take the Office of Economic Development established under the previous Administration and reestablish it as an Office of Equal Economic Opportunity, responsible directly to my Office, with staffing and strategic direction to address the issues discussed above.

To address our blighted neighborhoods, we propose a strategy which includes a more comprehensive approach to (1) identify and catalog the number and condition of all vacant properties in the city, (2) aggressively enforce existing codes, utilizing various legal measures and action agents over time, (3) increase operations with the Neighborhood Mitigation Team and (4) reopen the N.6th Street Sub-station with a dual function, working with Police Officers and citizens in a more interactive approach to code problems.

The priorities are imbedded in a series of changes proposed to various Budget Units, with a net increase in requirements of \$565,986.

To summarize, these proposed changes are as follows:

Restore the amount by which the City Council reduced the W.F. Trans.	\$3,818,325
Reduce the estimated income from Parking Violation Receipts	400,000
Reduce the estimated income from the Parking Authority	692,397
Reduce the estimated income from the local service tax	538,389
Establish a Contingency for emergencies	2,000,000
Provide for a series of changes in various Budget Units	<u>565,986</u>
<u>Total Requirements</u>	<u>\$8,015,097</u>

Proposed Changes in Resources

We believe there are a number of things we can do to reduce costs in City operations. In fact, the management audit which has just been delivered to me by the firm which delivered the Emergency Financial Plan on Monday is also providing us with a series of recommendations to reduce costs and improve the way in which services are delivered. Based upon my preliminary conversations with them, we feel certain we can take steps to reduce costs in the coming year. For example, the City obtains a range of services from professionals and/or firms under contracts which total more than \$2 million. We plan to take a hard look at those arrangements with the goal of reducing those costs in the coming year. Even a 10% reduction in those costs would be a significant savings to the City and its taxpayers.

Overtime costs are a significant expense in the Adopted Budget. We propose to reduce them by a total of at least \$700,000 in the current year. Our targets for reducing these costs are \$245,000 in Police overtime costs, \$450,000 in Fire overtime costs and \$5,000 in Neighborhood Services (Streets, Traffic & Storm Water Maintenance) costs.

We also believe we should move the responsibility for handling our Police communication requirements to Dauphin County's outstanding Communications Center, improving the coordination of communications throughout the county and reducing our costs by an estimated \$750,000 in the coming year alone. Estimates for savings over a full year are well in excess of \$1,250,000 and would continue to help the City reduce costs in the future.

Both my government Transition Team and Management Partners, Inc. have looked at several of our operating units and suggest we could reduce costs in the coming year. We propose to reduce Code Enforcement costs by at least \$150,000 as well as our costs to provide Garbage and Trash Collection by at least \$100,000. Again, there may be other opportunities in other areas of the City's operations; and, we will look for them as we get further into the new year while negotiating the recommendations laid out in the Emergency Financial Plan.

With respect to increases in income, we believe our fees to provide services to those who obtain a specific benefit should more closely offset our cost to provide those services. We believe we can generate an additional \$300,000 by increasing a number of those fees in 2010.

The Budget adopted by the City Council anticipated an increase in revenue from water rates of \$1,621,770 (approximately 13.5%). While the previous Administration proposed an increase of almost 50% in water rates, we believe a 40% increase, while very significant, it is sufficient to help offset the budget gap we face. This will generate an estimated \$3,181,882 in new income over and above the amount provided for in the Budget adopted by City Council in December.

And, finally, these changes will require an increase in the Real Estate Tax Levy of 2.0 mills, generating an estimated \$2,833,215.

To summarize, these proposed changes are as follows:

Reduce Overtime Expenses	\$ 700,000
Consolidate Communications Center responsibilities	750,000
Reduce Code Enforcement Expenses	150,000
Reduce Garbage & Trash Collection Expenses	100,000

Increase Fees charged to those who use special services	300,000
Increase Water Rates	3,181,882
Increase the Real Estate Tax	<u>2,833,215</u>
<u>Total Resources</u>	<u>\$8,015,097</u>

City Council members, there are many more sacrifices to be made. In fact, upon receiving and reviewing the Management Partners Emergency Plan, I have directed all department heads to delve further into the 2010 budget under their respective departments and use a fine tooth comb and present to me additional cost saving measures to further prevent any additional burden on our residents and businesses. This equally demonstrates our full commitment to my call for greater internal sacrifice without jeopardizing the quality of service for our taxpayers.

We all know that we face serious challenges in the coming year. However, we know that with a concerted effort on the part of all of us, we will meet those challenges and our community will be better off in the years to come.

These changes to the Adopted Budget for FY 2010 are submitted in that spirit.

Mayor Linda D. Thompson